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JANUARY 1980 SURVEY

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Surveys of Consumer Attitudes
Monitoring Economic Change Program

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DIVERGENT TRENDS YIELD NET IMPROVEMENT

**In the January 1980 Survey, the Index of Consumer Sentiment was 67.0, up from 61.0 in December of 1979. Some seasonal factors may have contributed to this 6 Index-point improvement, since both the January 1979 and January 1980 surveys each recorded a 6 point improvement over the preceding December survey. The recent improvement was based on more favorable evaluations of personal finances and buying conditions, and accompanied by record increases in price expectations.

**Among families with incomes of $15,000 or more, the Index value was 58.7 in the January 1980 survey, up from the 55.1 recorded in December 1979, and nearly 10 Index-points below the January 1979 reading (68.4). Since July 1979, the Index value recorded among high income families has ranged from 55.1 to 59.1, indicating no significant change from this low level during the past 6 months.

**Past and expected changes in their personal financial situation were evaluated more favorably by consumers in January 1980 than in late 1979, despite increase fears of inflation and stagnating real incomes.

**The expected inflation rate reached a new all-time record level of 13.1 percent in the January 1980 survey, up substantially from the 9.3 percent recorded in January 1979.

**Although the majority continue to expect bad times financially for the economy as a whole in the near and longer terms, small but sustained improvements in business expectations have been recorded during the past several months. A growing confidence in government economic policy has contributed to the improvement.

**Buying attitudes toward household durables were significantly more favorable in January 1980 than in late 1979, due to a resurgence of buy-in-advance price rationales. In contrast, favorable attitudes toward market conditions for vehicles declined in January 1980, with postponement the more frequent reaction to current prices, due to heightened concern with energy related issues.

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The improvement recorded in the January 1980 survey is based on an insufficient foundation, and is subject to future erosion. Although the recent change does not signal a clear reversal in trend, it does indicate that the downward momentum has ended, with consumer confidence remaining largely unchanged at low levels during the past 6 months. On balance, these findings continue to indicate weakened sales prospects during the first half of 1980.

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Improved Personal Finances

Consumer evaluations of their personal financial situation improved in early 1980, reversing losses recorded in the last quarter of 1979, and returning evaluations to levels comparable with year-earlier readings. Among all families, 38 percent reported being worse off financially, up from 27 percent in December, and identical to the 38 percent recorded in January 1979. The proportion who reported being better off financially was 34 percent in January 1980, up from 27 percent in December, and somewhat below the 38 percent recorded in January 1979. When asked to explain how their financial situation had changed, fewer complaints about price increases were made in the January 1980 survey (39 percent) than one month earlier (46 percent in December), and there were more frequent mentions of income increases in January 1980 (34 percent) than in December (28 percent).

The January survey confirms the small but sustained improvement in personal financial expectations since their mid-1979 record low level. Consumers more frequently expected that in the year ahead they would be better rather than worse off financially by a margin of 28 to 22 percent in the January 1980 survey. This is the first time since late 1978 that consumers more frequently expected improvement rather than deterioration in their overall personal financial situation. Despite these more favorable expectations, the majority in January 1980 (52 percent) continued to expect prices to increase by more than their incomes in the year ahead.

Business Prospects Diverge

In the January 1980 survey somewhat fewer respondents reported hearing of unfavorable changes in business conditions, and somewhat more

frequently reported favorable developments. Nonetheless, the news-mix remained predominantly negative by a margin of 76 to 17 percent. Nearly two-in-three consumers reported that current business conditions had worsened during the past year in the January survey, largely unchanged from when this pessimistic level was first reached in mid-1979. Although evaluations of current business conditions have remained at this low level during the past six months, small but sustained improvements in short-term business expectations have been recorded. Better business conditions were expected by 17 percent in January 1980, up from 11 percent in mid-1979, and nearly equal to the year earlier reading of 19 percent. In January 1980, 35 percent expected business conditions to worsen in the year ahead, down from the record 43 percent recorded in July 1979, although still above the 30 percent recorded in January 1979.

A majority continue to expect bad times financially in the economy as a whole during the near and longer terms. During the past several months, the short-term outlook has become somewhat more favorable, while the longer term outlook grew somewhat less favorable. Bad times were expected in the economy as a whole during the next 12 months by 66 percent of all families in January (down from 68 percent last November), and during the next five years by 70 percent (up from 64 percent in November 1979). Good times financially were expected in the economy during the next 12 months by 24 percent of all families in January (up from 20 percent in November 1979), and during the next five years by 17 percent (down from 18 percent in November 1979).

Price Expectations Reach New Record Level

In the January 1980 survey, consumers expected prices to increase on average by 13.1% during the year ahead. This exceeds the prior peak rate of 11.4% recorded in May 1979, and the 11.2% recorded in November 1979. Among all families, 53 percent expected prices to increase by 10% or more in the January 1980 survey, almost twice the 29 percent recorded in January 1979.

After posting improvements in the November and December surveys, interest rate expectations became somewhat less favorable in January 1980, although they remained significantly improved compared with year-earlier readings. Interest rates were expected to go up by 45 percent of all families in January 1980, somewhat above the 40 percent recorded in December 1979, but significantly below the 69 percent recorded in January 1979. Interest rate declines were less frequently expected in January 1980 (21 percent), than in December 1979 (34 percent), but significantly more frequent than a year earlier (7 percent in January 1979). Unemployment expectations, in contrast, were somewhat more favorable in January 1980 than in late 1979. Fewer consumers expected unemployment to increase in January 1980 (54 percent) than in December (61 percent), but still more frequently than a year earlier (41 percent).

Since mid-1979, confidence in government economic policy to combat inflation and unemployment has steadily increased. In July 1979, a near majority (48 percent felt the government was doing a poor job; by January 1980, less than one-in-three (31 percent) gave an unfavorable rating to government economic policies, comparable with the level of confidence recorded a year earlier in January 1979 (30 percent).

Mixed Changes in Buying Attitudes

The January 1980 survey recorded a sharp increase in favorable attitudes toward buying conditions for large household durables, reversing the losses recorded during the last quarter of 1979. Among all families, 60 percent reported it was a good time to buy durables in January 1980, up from 53 percent in December 1979, and nearly equal to the 63 percent recorded in January 1979. Unfavorable durable buying attitudes were held by 33 percent of all families in January, down from 41 percent in December, but still above the 25 percent recorded a year earlier. The recent improvement in durable buying attitudes can be traced to a resurgence of buy-in-advance price rationales. In the January 1980 survey, buy-in-advance motivations were mentioned by 47 percent of all families, up from 38 percent in December 1979, and comparable with the 48 percent recorded in January 1979.

Attitudes toward the housing market, after recording sharp declines in late 1979, improved somewhat in the January 1980 survey. The proportion of consumers who rated house buying conditions favorably remained largely unchanged from January 1979 (50 percent) to October 1979 (48 percent), but then fell to 28 percent in the November and December 1979 surveys, and subsequently increased to 36 percent in January 1980. Unlike the durable goods market for which the majority reported favorable buying attitudes, for houses the majority (60 percent) rate market conditions unfavorably (up from 41 percent in January 1979).

The January 1980 rebound in favorable buying attitudes toward durables and houses stood in contrast to declines in favorable attitudes toward buying conditions for automobiles. In January 1980, 39 percent

of all families felt buying conditions for autos were favorable, down from 44 percent in December 1979, and below the 46 percent recorded in January 1979. Unfavorable buying conditions were reported by 50 percent of all respondents in January 1980, up somewhat from the 47 percent recorded in December 1979, and significantly above the 39 percent recorded in January 1979. Unlike the household durable market, no increase was recorded in buy-in-advance price rationales with regard to the automobile market. In January 1980, 22 percent of all families expressed buy-in-advance motivations, largely unchanged from the 21 percent recorded in December 1979, and significantly below the 33 percent recorded in January 1979. High prices which may fall later was more frequently cited as a reason for unfavorable auto buying conditions in January 1980 (31 percent) than in December 1979 (27 percent).

The major reasons for the overall decline during the past year in favorable buying attitudes toward automobiles involves concerns over high interest rates along with tight credit conditions, and a heightened concern over energy problems. Although the impact of the energy crisis on automobile buying attitudes is considerably below the level recorded in June 1979, the proportion of respondents who have mentioned energy problems as reasons for making current buying conditions unfavorable has increased from 10 percent in November to 12 percent in December 1979 and 19 percent in January 1980. Unfavorable references to high interest rates or tight credit conditions were mentioned by 13 percent of all families in January 1979 compared with just 5 percent in January 1980.

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The January survey included 769 interviews conducted between January 2 and January 27, 1980.